

DESIGN OF UEC PROGRAM

The procedure for development of a UEC Program begins with identification of UEC intervention potential by the ROs as part of the SO Teams which, if approved, is ultimately incorporated into the country's Customer Service Plan. Identification of UEC potential is also a result of contacts with customers and possible partners, and the process **must** start with an initial request by the host country.

If it is determined that UEC intervention is appropriate, the process then continues generally with a formal or informal expression of interest from the host country. The regional Urban Environment Officers shall explore the applicability with the customer and the Team(s) as to whether the perceived need might better be handled by a UEC intervention, Technical Assistance through the grant mechanism, or a combination of both. Once approval of a UEC Program is part of the Strategic Plan, the design phase commences. SO Teams shall be involved in this process under the technical guidance of RO and G/ENV officers.

- 1) The basic planning process and documentation for a UEC program is essentially the same as that for other types of USAID assistance, except that a credit risk assessment must be performed and funds sufficient to cover the risk obligated. See Chapter 201, Managing for Results for additional details and requirements.
- 2) Documentation shall be prepared and approved through the SO Teams process and after USAID/W approval result in a "**management contract**" or "**guidance cable**" including an authorization for the proposed UEC Program by the appropriate geographic bureau or Mission generally at the time Strategic Plans (**or Amendments**) or the annual Results Review and Resource Request (**R4**) are submitted.
- 3) The design documents frequently reflect the approval of a multi-year commitment of UEC resources. A Program Agreement may be approved for the full Life of Program (**LOP**) funding. However, additional fiscal year authorizations (**with corresponding credit subsidy amounts**) shall be required until the final program level is reached. Some basic considerations that should be addressed in such design documentation include:
 - a) Is the proposed UEC intervention needed to help achieve one or more strategic objectives of USAID?
 - b) Is the economy of the country sufficiently strong to ensure that the

project will be carried through and completed as scheduled?

c) Is it highly probable that the loan will be repaid on schedule? **(Particularly consider the foreign exchange risk which the Borrower is undertaking, since in almost all cases the loan must be repaid in U.S. dollars. In this regard, examine the recent historical and projected fluctuation of the exchange rate in the country).**

d) If the UEC assistance is shelter related, are the housing units and/or shelter solutions to be financed affordable to those below the median income?

e) Are environmental impacts of the UEC intervention adequately considered **(e.g., via the Initial Environment Examination, or Environment Assessment process)**?

4) Other implementation aspects which must be addressed in this part of the design phase include:

a) Definition of eligible expenditures: USAID authorizes disbursement of UEC loan funds to reimburse eligible expenditures **(generally in local currencies)** or to make advances in anticipation of eligible expenditures **(which are subsequently applied to liquidate such advances)**. Eligible expenditures include reasonable costs incurred by the Borrower for the UEC activity and typically include expenses such as those for land, infrastructure, materials, construction services, financing costs, administrative costs, mortgages, etc.. Eligible expenditures should be defined for each UEC program, however, because they differ depending upon the nature of the intervention. In addition, the type(s) of documents that must be submitted by the Borrower to certify eligible expenditures must be specified.

b) Disbursement against policy changes: For other UEC Programs particularly related to local governance and municipal finance, USAID also authorizes disbursement of UEC loan funds based on the Borrower's achievement of certain policy, programmatic and/or institutional changes, depending on the nature of the Program.

c) Disbursement Method: Design documents should take under consideration the number of disbursements anticipated over the life of a specific UEC program. For example, the proposed program might call for disbursements totaling \$75 million with three disbursements over a three year period. The initial Program Authorization would approve the Program, but authorize \$25 million for the first year. The second and third tranches **(disbursements)** would each be authorized in the next two

fiscal years. Alternatively, the Program Authorization could authorize the full \$75 million Program, but obligate only the first \$25 million disbursement (**and its corresponding subsidy cost**) in the first year, with the remainder available in subsequent years.

With regard to disbursements made as advances pending eligible expenditures being incurred by the Borrower, or disbursements into escrow, it is USAID's current policy (**through G/ENV/UP**) to strictly minimize disbursements in the form of advances and into escrow accounts. Such disbursements, to obtain approval, would require to be justified by extraordinary circumstances.

5) Authorizations are generally signed by Mission Directors under their general delegations of authority, but may be signed by the geographic bureau Assistant Administrator, if required. The sequence of, and responsibility for, the various steps in authorizing a UEC Program (**and/or UEC loan disbursements**) and signing a Program Agreement with the UEC Loan Borrower, are as follows:

- a) Upon completion of the work of the SO Team to include a UEC intervention, the RO or Mission sends a draft Authorization and Action Memo to G/ENV/UP.
- b) The CIS office in the Economic Growth Center calculates the Credit Subsidy. G/ENV/UP submits the draft Authorization (**including the credit subsidy calculation**) and Action Memo through G/ENV to the Credit Review Board (**CRB**) for clearance by the Board and approval of the financial aspects of the proposed authorization by USAID's Chief Financial Officer. Clearance by the Office of Financial Management member of the CRB validates the availability of guaranty authority and funds for obligation.

The credit subsidy for sovereign Borrowers is calculated utilizing the OMB Credit Subsidy Model as prescribed in OMB Circular A-34, as amended. Credit subsidies for non-sovereign risk Borrowers are calculated utilizing G/ENV/UP's Non-Sovereign Risk Model.

- c) Subject to the expiration of the Congressional Notification, G/ENV clears the Authorization and Action Memo (**by cable or other means**) and forwards it to the Mission or geographic bureau concerned for signature. If G/ENV requests the Mission to sign the relevant Program Agreement with the Borrower, cleared language for the Program Agreement and its accompanying Annexed Information Sheet (**outlining terms and conditions of the approved UEC borrowing**) is also sent to the Mission.

d) The Mission (**or geographic bureau**) authorizes the UEC Program and/or its annual disbursement authorization by signing the Action Memo and Authorization.

e) The Mission (**or geographic bureau**) signs the Program Agreement with the Borrower. The Program Agreement, among other things, records USAID's intention to make a UEC loan guaranty within a specified time frame, and subject to certain terms and conditions.

6) The UEC Program involves legal relationships between a number of parties: USAID, host government (as Borrower or guarantor), lenders, Borrowers (sovereign and non-sovereign), paying and transfer agents (banks). There are also other relationships with other donors and customers. Consequently, compared to many other USAID programs, a UEC Program requires a fairly complex set of agreements and other documentation to carry out implementation of the UEC Program. Because of the specialized nature of these relationships, G/ENV/UP under the guidance and strategic direction of G/ENV, plays a leading role of oversight and guidance of this process in close coordination via the SO Team process with regional Urban Environment Officers, Missions, geographic bureaus and GC/G.

7) The next step to begin UEC Program implementation is for the appropriate SO Team, with technical advice and guidance from the regional Urban Environment Officer and legal advice from GC/G and/or RLA, to negotiate and finalize a Program Agreement with the Borrower in the host country. Preliminary drafting of the Program Agreement shall be started during the Program design effort. Under current practice, the UEC Program Agreement constitutes the obligating document with the Borrower. It is the obligation document for the UEC credit subsidy. It establishes and controls how, when and by whom the UEC loan funds shall be utilized to carry out the UEC intervention concerned. It establishes the duties of the Borrower and contains the conditions precedent to each disbursement corresponding to the relevant Authorization and Program Agreement.

8) Of particular significance, the UEC Program Agreement contains an indemnity clause in which the Borrower irrevocably and unconditionally agrees to indemnify USAID for any payment made by USAID under its Guaranty of the UEC loan. In the event the host country is not the Borrower under the particular UEC Program, but guaranties the UEC loan, a separate Guaranty Agreement shall be required between USAID and the host country or another suitable guarantor.

9) EC Program Agreements shall take the analysis, goals and benchmarks established by the SO Teams during the design phase and translate them into a results-oriented mutual set of undertakings. Each agreement **must** contain in the text a clear statement of objectives and results to be achieved, preferably in

quantitative terms. Annex A shall contain the agreed Program Action Plan which **shall** describe the process designed to achieve the Strategic Objectives stated in the text of the Program Agreement. This Program Agreement and its Annex contain a performance monitoring system with performance indicators to measure the results and achievements of the objectives of the Program.

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